



Ernie Fletcher
Governor

Mark David Goss
Chairman

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission

John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460

NEWS RELEASE

Contact:
Andrew Melnykovich
(502) 564-3940 x208
(502) 330-5981 (cell)

PSC ISSUES REVIEW OF MARTIN COUNTY WATER DISTRICT
Management audit includes 25 recommendations

FRANKFORT, Ky. (April 19, 2007) – The Kentucky Public Service Commission (PSC) today released the findings of an audit focusing on the management and operations of the Martin County Water District (MCWD).

The independent audit found that MCWD has made significant progress in recent years, but still requires substantial improvements in a number of key areas, including operational reliability, financial stability and customer service.

The district, headquartered in Inez, serves about 3,400 customers in Martin County.

Martin County Water has been the subject of PSC concern since 1997, when PSC reviews and inspections found problems with recordkeeping, maintenance and system reliability. In 2002, consumer complaints about water quality and poor service prompted a PSC investigation that ultimately led to the comprehensive audit of the district's management and operations.

The audit was performed by the Barrington-Wellesley Group Inc., an independent consulting firm. Martin County Water paid for the audit with help from the Kentucky Division of Water. State law allows the PSC to hire an independent auditor at company expense.

Previous PSC reviews of Martin County Water have found poor recordkeeping, substandard budget and financial controls, excessive water loss in the system, inadequate meter reading and testing programs, poor equipment and plant maintenance practices, and persistent problems complying with regulatory requirements.

-more-

Martin County Water has not adjusted rates since 1996, leading to concerns that the district's revenue is insufficient to support adequate and reasonable service. Over the last 10 years, the district also has undergone numerous changes in the composition of its board of commissioners and management staff. The current board and top managers have been in place since 2003.

The audit was a comprehensive review of Martin County Water's operations and management. While the audit recognized the district's achievements over the last three years, it noted that there is room for significant further progress. The audit identified five areas of particular concern:

- Reducing water loss and strengthening the reliability of the treatment and distribution systems.
- Establishing a formal system for planning and funding capital improvements.
- Strengthening meter reading and bill collection.
- Redefining and formalizing the roles of the district board and managers.
- Finding additional revenue in order to provide adequate staffing and meet operational goals.

The audit report contains 37 findings, including:

- MCWD generally delivers water of adequate quality, although concerns remain about levels of organic compounds.
- Delivery of water is generally reliable, although the system remains vulnerable to disruptions.
- Although MCWD has significantly reduced water loss from the system, it remains excessively high.
- MCWD has improved its treatment and distribution infrastructure to address PSC concerns, but continues to have a backlog of work in its distribution system.
- The capital program has focused on system expansion over water loss reduction. Water loss should be the top capital priority.
- Current rates are significantly below those of surrounding water utilities. Even with a planned rate increase, rates will not be sufficient to fully fund all needed activities.

-more-

- Customer service procedures are adequate and effective, with the exception that requests for new service from existing water lines are not completed promptly.
- Procedures to identify theft are incomplete.
- Procedures to collect past due accounts are inadequate.
- Meter reading controls are inadequate, but misread and unread meters do not appear to have contributed noticeably to the water loss problem.
- The roles and responsibilities of the general manager and the board of commissioners are not clearly defined.
- MCWD is current in filing its required regulatory reports and has updated its policies and procedures.

Martin County Water will be required to develop action plans to address the findings of the audit report. MCWD will also be required to inform the PSC of the actions taken in response to the audit findings.

The final audit report is available on the PSC website, psc.ky.gov. The case number is 2006-00303.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.